
AUDIT NEWSLETTER 2002

City of Tucson - Audit Division (520) 791-4681 Fax (520) 791-4344

December 2002

Topics listed below are new items or problem areas found during audits. Please check with the State of Arizona for compliance to State law.

RENTAL - REAL PROPERTY

LICENSING FOR USE

The Tucson tax rate on income from non-residential real property rental is two percent (2%). The State of Arizona does not tax this activity. Do you have amusement machines, pay telephones, or vending machines that you do not own on your property? If you receive a payment for allowing the owner to put the equipment on your property, the payments are considered licensing for use income. Licensing for use income is taxable under the rental of real property activity.

Do you personally lease property to "your corporation"? If so, it is taxable. Rentals to all governmental entities (except Davis Monthan Air Force Base) are taxable. Rentals to all non-profits are taxable except to non-profit primary healthcare facilities that provide the landlord with annual exemption letters from the Arizona Department of Revenue and the City of Tucson.

Failure to report rental income has resulted in assessment of tax and interest.

RETAIL

SALES TO THE UNITED STATES GOVERNMENT - CREDIT CARDS

The City of Tucson taxes sales made to the United States Government. Because the tax is on the business and not on the government, the business is liable for the tax on sales to the U.S. or any government. The governments generally pay the passed on tax (cost). The City of Tucson exempts 50% of the sales to the U.S. Government. Sales directly to the U.S. Government are not taxable when made by a manufacturer, modifier, assembler, or repairer of a product. Sales to or on Davis Monthan Air Force Base are exempt from the Tucson tax.

Agencies of the U.S. Government have started using credit cards issued by a variety of card-issuing banks under a program called GSA SmartPay. There are two types of accounts under this program. Type one is billed

directly to the federal government (centrally billed) and the other is billed directly to the employee/ cardholder. These accounts can be distinguished by their account numbering system.

Cards that are always centrally billed can be identified by two four-digit prefixes, 8699 or 5568. A second set of prefixes is used for those accounts which are both individually or centrally billed. The 6th digit in the account number is the determining factor. The prefixes are 4486, 4716, and 5568. Sales charged to account numbers with 0, 6, 7, 8, 9, as the 6th digit are centrally billed to the federal government. Sales charged to accounts with 1, 2, 3, or 4, are individually billed to the cardholder.

Sales charged to cards that are centrally billed by the federal government are considered sales to the U.S. Government and therefore, subject to the tax exemptions and partial exemptions noted in the first paragraph of this section.

Sales charged to cards that are individually billed to the cardholder are not sales made directly to the federal government. Therefore, these are subject to the Tucson business privilege tax.

CONTRACTING

ANNEXATION EXEMPTION

The annexation exemption has been eliminated beginning with any annexations occurring on July 2, 2001. Previously, a three-year exemption applied to construction in newly annexed areas. This exemption did not apply to jobs done on property owned by a government entity. Under the new annexation provision, projects done on private property that was annexed to the City of Tucson after July 1, 2001, are taxable to the City of Tucson without a moratorium.

CONTRACTING RATE

Since the change in the State of Arizona tax rate from 5% to 5.6% on June 1, 2001, the effective rate for contracting activity has also changed. For contracting activity occurring in the City of Tucson, the effective rate is now 4.94% (7.6% * 65%) for adding tax to a contracting job. For jobs done in unincorporated areas, the effective rate is 3.64% (5.6% * 65%). For jobs done in other cities please call the Audit Division for the correct effective rate to calculate the tax.

SERVICES INCLUDED IN CONTRACTING

When services are included in contracting income the entire amount of the contracting income is subject to tax. If a contractor is billing his customer for permits, fees, etc. these are part of the total taxable contracting income. A contractor who performs consulting or acts as a contract manager, and has a separate contract or agreement, may deduct the income from those in-city activities as long as the contractor has an Occupational License for Service. Otherwise, the total income is taxable.

OTHER ISSUES

City of Tucson tax is a Business Privilege Tax. The tax is the responsibility of the business. The business passes the tax onto its customers. Generally, tax is collected based on the business location on all retail activities. If a county resident makes a purchase from an in-city business, the Tucson tax will apply. On contracting, telecommunications, and utility activities, the tax is based on the location of the customer (job). For other activities, see the specific Tucson Code Section.

USE TAX

The City of Tucson is currently considering adding a 2% Use Tax that will apply to purchases made by businesses and individuals from vendors outside Tucson that did not charge a city tax. Individuals who are not in business are exempt from the tax on purchases of \$1000 or less per item on items bought outside the city. Want to learn more about the Use Tax? You can call the Audit Division at 791-4681. If your group would like a presentation to explain the Use Tax, please call Robert J. Leko, Audit Administrator, at 791-4681 to schedule the presentation.

DO YOU HAVE TAX QUESTIONS?

If you have tax questions, please call 791-4681, Monday through Friday from 8 a.m. until 5 p.m. If you would like to receive a written response to your questions regarding unusual transactions, send your **detailed** explanation of the transaction to:

Revenue Administrator
City of Tucson
PO Box 27210
Tucson, AZ 85726-7210

WEB PAGE: www.ci.tucson.az.us

This is the City of Tucson's home page. Explore the many interesting and informative pages for departments and other items.

You can access the **Business Privilege (Sales) Tax Code** from at least two city departments, Finance and City Clerk's Office. From the home page, access "Departments" and "click" on Finance Department (www.ci.tucson.az.us/finance/). You will also find the Occupational License Tax Code Sections, Tax Information Brochures, Newsletters, Business Privilege Tax Return Forms, 17 Step-Business License Process, and other information and guides.

TAX SEMINARS

Seminars with emphasis towards licensing and reporting requirements are given on the dates and at the locations listed below. ADOR will also be speaking. Questions are welcome.

9:10 AM - 12:10 PM	9:00 AM - 12:00 PM
Wilmot Library	Main Library
<u>530 North Wilmot Road</u>	<u>101 North Stone Avenue</u>
May 8, 2003	January 23, 2003
September 11, 2003	March 13, 2003
	July 10, 2003
	November 13, 2003

These presentations are free. Please call us at 791-4681 to register. We will ask for your name and how many will be attending (needed for seating and material planning).